

BEFORE THE  
UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Competitive Product Prices  
Inbound Parcel Post (at UPU Rates)

Docket No. MC2017-58

Competitive Product Prices  
Inbound Parcel Post (at UPU Rates)

Docket No. CP2017-86

PUBLIC REPRESENTATIVE COMMENTS ON CHANGES IN PRICES  
FOR INBOUND PARCEL POST (AT UPU RATES) AND RELATED  
CLASSIFICATION CHANGES

(December 29, 2016)

The Public Representative hereby provides comments pursuant to Order No. 3677.<sup>1</sup> In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Notice of a change in rates not of general applicability for the Inbound Parcel Post (at UPU Rates) product and related mail classification changes.<sup>2</sup> The Inbound Parcel Post (at UPU Rates) product consists of Inbound Air Parcel Post (at UPU Rates) and Inbound Surface Parcel Post (at UPU Rates). The Postal Service intends to add ECOMPRO to the product. Notice at 4.

Included as Attachment 1 to the Notice is an application for non-public treatment of materials filed under seal. The Postal Service also filed as Attachments 2 and 3 redacted versions of UPU International Bureau (IB) Circular Nos. 169 & 168, showing the rates applicable to the Postal Service. It also included the following: A certification pursuant to 39 C.F.R. § 3015.5(c)(2) as Attachment 4, the redacted Postal Service data transmitted to the UPU to justify its bonus payments as Attachment , a copy of the Postal Service's submission to the UPU in support of an inflation-linked adjustment as Attachment 6, Redacted copies of Governors'

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<sup>1</sup> Order No. 3677, Notice and Order Concerning Changes in Prices for Inbound Parcel Post (at UPU Rates) and Related Classification Changes, December 20, 2016.

<sup>2</sup> Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Inbound Parcel Post (at UPU Rates), Change in Mail Classification Schedule, and Application for Non-Public Treatment, December 19, 2016, at 1-2 (Notice).

Decision Nos. 14-04 and 11-6 as Attachments 7 and 8, proposed changes to the text of the MCS as Attachment 9, and a supporting financial model estimating the cost coverage in 2016.

The Commission issued an information request to clarify the record. With its response to Chairman's Information Request No. 1 (CHIR 1), question 4a, the Postal Service filed revenue and cost data for Inbound Parcel Post that incorporates the proposed ECOMPRO delivery option.

## COMMENTS

Pursuant to 39 U.S.C. § 3633(a), the Postal Service's competitive prices must not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and, ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service.

Based upon a review of the financial data, the prices for the Inbound Parcel Post (at UPU Rates) product excluding ECOMPRO should generate sufficient revenues to cover costs and therefore meet the requirements of 39 U.S.C. § 3633(a). Additionally, adding ECOMPRO agreements with the same rates as Inbound Air Parcel Post (at UPU Rates) should not increase the risk that revenues for the Inbound Parcel Post (at UPU Rates) product will fail to cover cost. The Postal Service's contention that costs for ECOMPRO delivery will "be lower because signatures are no longer captured with ECOMPRO" seems reasonable. Notice at 4. But, the Public Representative has reservations about the Postal Service's intent to negotiate bilateral agreements with designated operators that discount the rates for ECOMPRO. Additionally, the Public Representative has concerns with the Postal Service's proposed approach for adding agreements with discounted rates to the Inbound Parcel Post (at UPU Rates) product as explained below.

The Postal Service equates the inclusion of ECOMPRO agreements with discounted rates in the Inbound Parcel Post (at UPU rates) product with the inclusion of agreements with discounted rates in the Inbound EMS 2 product. Further, the Postal Service proposes to use the same approach for any ECOMPRO discount agreements as the approach as that approved by the Commission for EMS discounted rates. Notice at 7 and Order No. 1865<sup>3</sup>.

The approach approved for the EMS 2 product has two parts. First, the Postal Service files a financial model demonstrating that with the least cost-covering potential discounts

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<sup>3</sup> Order No. 1865, Order Granting Motion for Reconsideration of Order No. 1822, PRC Docket No. CP2013-77, October 30, 2013.

provided to eligible postal operators, the Inbound EMS 2 product comports with the requirements of 39 U.S.C. § 3633. Then, if based on that financial model the Commission approves the rates for the Inbound EMS 2 product (including the discounted category) the Postal Service provides notice to the Commission concerning any arrangements to provide discounts to postal operators. That notice would provide confirmation that the discounted rates fall within the approved rates established for Inbound EMS 2.

In the instant docket, the Postal Service did not propose specific discounted rates nor did it provide a financial model that shows compliance with requirements for competitive products using the lowest potential rates. Its workpapers filed in the instant docket use the non-discounted ECONPRO rates to calculate the Inbound Parcel Post (at UPU rates) product's cost coverage, which does not allow the Public Representative to assess the effect of discounting ECONPRO rates in potential future agreements. Consequently, the Public Representative does not support the Postal Service's request to add agreements with discounted ECONPRO rates to the Inbound Parcel Post (at UPU rates) product without prior approval by the Commission. However, even if the Postal Service's financial model were to show that the potential discounts would not hinder the Inbound Parcel Post (at UPU rates) product's ability to cover its cost, the Public Representative's apprehension regarding the proposed process for handling future agreements for ECOMPRO and offering discounts on a bilateral bases would not be entirely alleviated.

The cost coverage of the Inbound EMS 2 and Inbound Parcel Post (at UPU rates) products is considerably different. Unlike with the Inbound EMS 2 product, the Commission found that Inbound Parcel Post (at UPU rates) did not cover its cost in FY 2015. Thus, the Inbound Parcel Post (at non-UPU rates) did not comply with 39 U.S.C. §§ 407(a)(2) and 3633(a)(2). In the instant filing, the Postal service's financial workpapers show that the rates for the Inbound Parcel Post (at UPU rates) product should cover cost. Nonetheless, until there is confirmation that the Inbound Air Parcel Post (at non-UPU rates) covers cost, the Postal Service should be cautious about entering bilateral agreements that provide discounting rates. Additionally, the Commission should compare the FY 2016 cost coverage of Inbound Parcel Post (at non-UPU rates), when it becomes available, with the cost coverage estimates the Postal Service provided when it sought approval for the applicable rates. Based on this comparison, the Commission should determine whether the Postal Service's financial model is reliable enough to ensure that the cost coverage will not fall below 100 percent if ECOMPRO agreements provide discounted rates.

The Public Representative observes that a discounted rate for foreign origin mail has different consequences than for domestic mail. When the Postal Service reduces a rate by giving a discount for domestic products, the Postal Service can expect an increase in volume, as long as demand for the product is elastic. Thus, even with a lower unit contribution, net contribution may increase due to the increased volume. However, with inbound products, the Postal Service has no control over volume. If the Postal Service were to enter into a bilateral agreement with a foreign post to discount ECOMPRO, it would have no control over the prices set by the foreign post for mailers in their country. It cannot assume that the foreign post will pass on the savings to the customer. Therefore, the Postal Service cannot expect an increase in volume to offset the discount. Consequently, given that Inbound Parcel Post (at UPU Rates) product did not cover its cost in FY2015, including ECOMPRO agreements with discounted rates could cause the product's cost coverage to fall below 100 percent unless the cost savings from eliminating the requirement to capture signatures is significant.

In its response to CHIR 1, question 4a, the Postal Service filed revenue and cost data for Inbound Parcel Post that incorporates the proposed ECOMPRO delivery option. In order to estimate the cost of the proposed ECOMPRO delivery option, the Postal Service developed a cost for signature confirmation. However, the Postal Service did not provide the underlying workpapers that detail how the cost of signature confirmation was developed. The Public Representative contacted the Postal Service to inquire about the omitted workpapers. Council for the Postal Service indicated that the Postal Service will supplement the record later today by filing the workpapers in question. The Public Representative urges the Commission to verify that the signature confirmation cost estimate is reasonable.

## CONCLUSION

The Public Representative recommends that the Commission approve the Inbound Air and Surface Parcel Post (at UPU Rates). The Commission should grant the Postal Service's request to add ECOMPRO agreements with rates equivalent to that of Inbound Air Parcel Post (at UPU Rates) with only requiring that the Postal Service file the list of countries participating in ECOMPRO. For ECOMPRO agreements with discounted rates, the Commission should require the Postal Service to file a competitive rate adjustment pursuant to 39 C.F.R. part 3015, at least until the Postal Service can demonstrate that its cost coverage for the product is stable and that the inclusion of ECOMPRO contracts with discounted rates allows the product to still meet the requirements of 39 U.S.C. § 3633.

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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